TOP 300 U.S. BANKS AT MIDYEAR
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AMERICAN BANKER

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Memo to OTS: Throw in Towel On Franklin

By SANFORD ROSE

Perhaps the most significant impact of Judge Dale Saffels' remarkable judgment vacating the conservatorship of Franklin Savings Association is that it will help safeguard the country from the well-known pendulum effect — the all-too-human tendency of regulators to oscillate from overleniency to overaggressiveness in an effort to preserve their jobs.

When this overaggressiveness is married to fundamental ignorance and deep suspicion of the novel and innovative, it can result in all manner of ill-conceived assaults on legitimate property rights.

Comment

Anyone reading Judge Saffels' 93-page opinion comes away with the notion that the Office of Thrift Supervision is tendentious and uneducated as well as arbitrary and capricious. The opinion is generously larded with the last two adjectives and comes close to employing the first two as well.

Saffels intimates that after some OTS employees in the Topeka, Kan., office were sharply criticized for their handling of the Silverado S&L case and placed in jeopardy of losing their jobs, they proceeded to launch an attack on Franklin at least in part because "Franklin had in its portfolio similar assets to those formerly held by Silverado."

Adds the judge: "This similarity probably slanted [one OTS analyst's] view against Franklin and Franklin's system of operations." In other words, there was a presumption of guilt by association with a collateralized mortgage obligation.

Ignorant, Inadequately Trained

In the judge's view, that analyst and others in the OTS's Topeka office felt that Franklin was far riskier than was the case because they were ignorant and inadequately trained. That's a serious failing, and one that we all recognize can lead to much mischief.

There is a tendency to fear and hate what we don't understand. And having attacked the object of that fear and hatred, we become committed to the attack, even to the extent of buttressing our efforts with highly questionable ammunition.

Thus, throughout the campaign to humble Franklin and its abrasive but talented chairman, Ernest Fleischer, the OTS kept demanding additional capital writedowns. One was for the contested value of certain tax

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INSIDE NEWS

RANKINGS

DEPOSIT GROWTH has been sluggish at the nation's top 300 commercial banks, reflecting the weak economy and regulatory obstacles to thrift acquisition. *Page 2*

INTERNATIONAL

BRAZIL WILL BEGIN debt talks with commercial banks next month but will not deviate from its twin goals of economic growth and lower inflation. *Page 10*

FINANCE

CITICORP'S suspension of its commercial-paper auctions indicates how tricky it is for banks to maintain a presence in that market. *Page 32*

NEW ENGLAND'S real estate market collapse is vividly illustrated by the case of Arnold Peck, a prominent Connecticut developer with $300 million in bank debt secured by property now valued at $130 million. *Page 30*

CONSUMER

THE FED imposed tougher disclosure requirements for home equity lines of credit, deferring somewhat to the appeals of consumer advocates. *Page 7*

TECHNOLOGY

AN INTERNATIONAL financial industry association has recommended that U.S. banks and brokerages use the Fed's payment system to shift to same-day payments for securities transactions. *Page 3*

PEOPLE

EILEEN FRIARS has parlayed a consulting assignment into a senior post at C&S/Sovran Corp. *Page 2*

MANAGEMENT

THE ABILITY to negotiate effectively, often in a crisis atmosphere, is vital for banking professionals. Consultant William J. Healy provides some tips. *Page 8*

COMMENT

THE RTC must consider the competitive impact of branch sales, especially in communities where there are a limited number of banks, writes Kenneth H. Thomas. *Page 4*

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Financial Names Packing Brand Power

Rank among all brands

MasterCard	65
Visa	78
American Express	149
Discover Card	485
Citibank	639

Source: Landor Associates

MasterCard Top Brand Name, Survey Finds

By YVETTE D. KANTROW

NEW YORK – MasterCard is the strongest brand name in the U.S. financial services industry and carries more consumer clout than major brands such as Birdseye, Clorox, and Band-Aid, according to a corporate identity consulting firm.

The credit card name ranked 65th in Landor Associates' ImagePower study, which assigns products "brand power" rankings based on both consumer recognition and esteem. MasterCard ranked 13 places ahead of Visa, even though more people carry Visa cards.

The two card associations were the only financial services firms to finish in the top 100 of the 2,000 names in Landor's U.S. ranking. Their long-time rival, American Express, came in at 149.

Part of Consumer's Psyche

The findings indicate that while they do not pack the same power of consumer legends like

See **MASTERCARD** *page* **6**

Lawmakers Scramble To Boost FDIC Rates

By ROBERT M. GARSSON and DEBRA COPE

WASHINGTON — Pressure mounted on Wednesday for another increase in deposit insurance rates, as Congress heard a grim new assessment of the Bank Insurance Fund's condition and key lawmakers readied legislation that would pave the way for a hike.

600 Failures Predicted

In Senate Banking Committee testimony, Congressional Budget Office Director Robert D. Reischauer said that even with premium increases set by the Federal Deposit Insurance Corp., the fund that protects

See **LAWMAKERS** *page* **16**

Bank Insurance Fund Faces 4 Tough Years

1990-93 projection by Congressional Budget Office

Equity ratio	Projected failures	FDIC cost (dollars in billions)
Over 6%	295	$4.5
3% - 6%	159	7.7
1.5% - 3%	63	2.5
0% - 1.5%	40	2.3
0% or less	74	3.9
Total	631	20.8*

*Total is rounded

Last Rap of Gavel May Be Near For Bank Capital Markets Assn.

By BARBARA A. REHM

WASHINGTON — The Bank Capital Markets Association may soon go out of business, a victim of industry cost-cutting and competition among trade groups.

Closing Called an Option

The association's directors have scheduled a meeting here Sept. 20 to determine its future. Folding the association, which mainly lobbies for repealing the Glass-Steagall Act, is one option being considered, according to the group's executive director, Thomas P. Rideout.

"What we are doing is looking at a range of options about our future," said Mr. Rideout, a former banker and past president of the American Bankers Association. "One of those options is to not stay in business. But no one is going into the meeting advocating that."

Asked if he is looking for a new job, Mr. Rideout said, "I can answer that question after the 20th."

If Bank Capital Markets does fold, it will be the first trade association to fall victim to the banking industry's current cost squeeze. But all banking trade groups are feeling the pinch as banks tighten their belts.

See **BANK** *page* **12**

Gamble Failing, Abboud Seeks New Deal

By STEVE KLINKERMAN and FRED VOGELSTEIN

A. Robert Abboud's high-stakes gamble to revive First City Bancorp. of Texas is falling apart.

When he bought the failing Houston-based banking company with $1 billion in federal assistance in 1988, Mr. Abboud wooed investors with promises of hefty interest payments on $125 million of convertible preferred stock, betting that rising values in First City's stock would enable him to convert the shares into common equity.

Earnings Below Projections

But Mr. Abboud is not meeting his ambitious earnings projections. First City's stock has fallen precipitously this year, making the conversion virtually impossible.

Peggy Turbett

A. Robert Abboud
First City Bancorp.

The stock was trading Tuesday at $17.50, down $1.625 for the day and well below the conversion price of $27.22. The stock's 52-week low is $17 a share and most analysts predict the stock will remain depressed.

"It was a stupidly structured deal and now they're paying the price," said Christoph Kotowksi, an analyst at Oppenheimer & Co.

Minority Investor Sought

Essentially conceding that First City is in need of a minor bailout, Mr. Abboud disclosed in an interview with the *Wall Street Journal* this week that his company is seeking a minority investor that would buy out the preferred.

The company also is shopping on Wall Street for debt financing to retire the cumbersome preferred issue, which investors can convert to an adjustable-rate security paying interest equal to the prime rate plus 6 points if the equity is not redeemed.

Quarterly interest payments on the issue currently amount to

See **STOCKS** *back page*

PEOPLE *in the news*

Sovran Consultant Lands Senior Job at Merged Bank

By KENNETH CLINE

ATLANTA — Eileen Friars has parlayed a consulting assignment into a senior post at C&S/Sovran Corp.

As the senior vice president in charge of corporate development, Mrs. Friars, 40, will direct marketing, advertising, distribution systems and strategic and expansion planning at the $50.3 billion-asset C&S/Sovran, the nation's 13th-largest banking company.

For the past two years, Mrs. Friars had worked at Norfolk-based Sovran Financial Corp. as a consultant with the MAC Group of Cambridge Mass., her employer for 14 years. During her time with Sovran, Mrs. Friars helped the company design and implement a major strategic reorganization.

Eileen Friars

When Sovran merged with Atlanta-based Citizens and Southern Corp. last month, Mrs. Friars was placed in control of corporate development for the combined entity.

"Unlike most other consultants, she has demonstrated a great deal of interest in ensuring that the programs that are conceived are also implemented," said C&S/Sovran's chief operating officer, Dennis C. Bottorff. "It was obvious Eileen Friars was a unique match for that position."

Mr. Bottorff cited Mrs. Friars' "participatory management style" as being appropriate to the "collaborative" corporate culture C&S/Sovran is trying to build. He also complimented her technical skills. "She's got a great deal of broad knowledge about the industry," he said.

'A Great Opportunity'

Mrs. Friars said she was sad to leave the MAC Group, which she described as "a special place" that lets employees grow and develop, but added, "There's such a great opportunity here at C&S/Sovran that I find that at this point in my career, that's exciting and I'm looking forward to it."

Although she is conscious of her status as one of the rare women to achieve a high corporate position in the banking industry, Mrs. Friars said her sex has never been an obstacle to her career. "I've always looked at it as, I like to do a good job at what I'm doing and if I do that and make a contribution, I seem to keep moving onward and upward," she said.

"I want to set a good example. There are a lot of good women coming up in the industry who can play a major role and, over time, that will happen," she said.

Background in Economics

Mrs. Friars has an undergraduate degree in economics and government from Simmons College and an MBA from the Harvard Business School. She recently served as president of the Harvard Business School Club of Chicago. She has also served on the board of regents of the Bank Marketing Association.

She joined the MAC Group in 1976 and rose to become a senior vice president, head of the firm's Chicago office, and co-director of its financial services industry practice. Her specialty is managing strategic and organizational change and marketing. □

Security Pacific's Chief Economist Taking Same Post at Exxon Corp.

By LINDA CORMAN

WASHINGTON — Kathleen B. Cooper, executive vice president and chief economist at Security Pacific Corp. for the past nine years, and widely mentioned as a candidate for Federal Reserve Board governor, will leave the bank Friday to become chief economist for Exxon Corp.

"It was an opportunity too good to pass up," Ms. Cooper said Wednesday in an interview.

"After my first 10 years in the banking industry, I had expected to stay in it the rest of my life," she said. "I obviously will miss it." Before joining Security Pacific, Ms. Cooper was corporate economist and then chief economist for United Banks of Colorado.

She is chairman of the American Bankers Association's economic advisory committee and a director of the National Bureau of Economic Research.

Ms. Cooper, who has a Ph.D. in economics from the University of Colorado, said she decided to join Exxon because "it's a new challenge in an industry that's very important for the economy."

She said she was eager to return to Dallas where she grew up and where Exxon recently moved its headquarters. "It's home for me. I've been gone for 20 years."

Ms. Cooper declined to comment on whether she had been or continued to be interested in a seat on the board of governors. □

Deposits Edge Up at Major Banks

Growth Is Slow Despite Buyouts

By JED HOROWITZ

NEW YORK — On the face of it, the past 12 months should have seen a boom in deposit growth at the nation's commercial banks.

The thrift industry was on its knees and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 guaranteed that there would be a surplus of deposit-heavy thrifts ripe for picking by banks.

In fact, bank deposits have grown at a snail's pace, according to the *American Banker*'s semiannual review of deposit and assets at the nation's 300 largest banks. (Tables showing the largest banks are on pages 18 to 23 and 26 to 28.)

Deposits Up Only Slightly

Deposits of the top 300 rose by $37 billion, or 2.3%, in the first six months of 1990, and just over 6% for the 12-month period that ended on June 30.

Assets, which many banks are seeking to shed in light of increased capital requirements, grew 2.8% in the first six months of 1990 and 6.1% over the year at the top 300 banks.

The relatively slow deposit growth reflects a sluggish economy that curbed loan demand and the consequent need for cheap funding, analysts said. It also testifies to the regulatory and legislative obstacles imposed on potential acquirers of banks and thrifts.

Most Gains from Thrift Deals

To be sure, purchases of thrift deposits accounted for about 72% of the growth in the first half of the year. And bank holding companies have purchased about 205 thrifts outright since the thrift-reform legislation was passed in the summer of 1989. But bank lawyers and analysts say the total would be substantially higher were it not for regulatory and legislative obstacles.

Chief among these are the the difficulty of converting thrifts to banks and the heightened capital and examination standards imposed by the Federal Reserve Board on potential bank acquirers, according to H. Rodgin Cohen, a lawyer at Sullivan & Cromwell.

"Without debating the merits of the Federal Reserve's capital standards, the consequences are not debatable," Mr. Cohen said at a meeting of bank chief financial officers earlier this week. "A number of bank holding companies are now out of the acquisition business – for thrifts and everything else."

Standards Are Tougher

Mr. Cohen said the Fed requires buyers of thrifts to meet more stringent capital standards than those imposed under the three sets of published capital guidelines – those dealing with primary capital, risk-based capital, and leveraged capital.

Banks interested in buying

See **DEPOSITS** *page* **17**

Largest Thrifts Acquired by Banks

First six months of 1990, thrift deposits as of yearend 1989

Thrift/ **Acquiring bank**	Deposits ($ mil.)
Gibraltar Savings, Simi Valley, Calif. **Security Pacific National Bank, Los Angeles**	$5,686
Meritor Savings Bank, Philadelphia **Mellon Bank (East) PSFS, Philadelphia**	5,200
Western Savings and Loan, Phoenix **Bank of America Arizona, Phoenix**	4,164
Bright Banc Savings, Dallas **Bank One, Texas, Dallas**	2,708
Seamen's Bank for Savings, New York **Chase Manhattan Bank, New York**	2,241
Gibraltar Savings Bank, Bellevue, Wash. **Security Pacific Bank Washington, Seattle**	1,516
Unifirst Bank Savings, Jackson **Trustmark National Bank, Jackson, Miss.**	581
Great Southern Federal, Savannah, Ga. **First National Bank, Atlanta**	527
Monroe Saving Bank, Rochester, N.Y. **Manufacturers & Traders Trust Co., Buffalo**	489
Royal Palm Federal Savings, West Palm Beach, Fla. **Barnett Bank of Palm Beach County, West Palm Beach**	375

Source: American Banker

Corrections

An article published Tuesday ("Progress in Assessing Payment Risks," page 3) incorrectly said that Continental Bank Corp. was among the sponsors of a Bank Administration Institute study.

Also, Chemical Banking Corp., New York, should have been listed as a sponsor.

■

An item in the Sept. 5 "Grapevine" column (page 2) reported that Ryan, Beck & Co., an investment bank based in West Orange, N.J., had closed its California office. The office is not closed.

COMPANY *index*

This index lists significant references to companies and banks in today's issue. Page numbers refer to where stories begin.

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MARKETING/ADVERTISING

Welcome to the World of 'Frequent-Flier' Banking

By LAURYN FRANZONI
Special to the American Banker

Bankers seeking to build relationships with their most valued customers may find a way in the marketing tactics of the travel industry.

Some bank marketers argue that the methods used by airlines, hotels, and theme parks are not applicable to banks, which provide a steady stream of service. But Richard Barlow, a marketing consultant in Cincinnati, says banks' successes with mature-market programs illustrate the opportunity for variations on the popular frequent-flier plan.

Building Customer Loyalty

In frequency-based programs, banks reward frequent users of their products and nudge customers to use the institution for multiple services. The objective is customer loyalty.

"It's one of those tactics that is about to burst open in the banking industry," predicted Mr. Barlow, a former American Express Co. executive who has been developing frequency-based marketing programs for First Chicago Corp.'s card division, Sheraton Hotels, Procter & Gamble, and retail chains.

Mr. Barlow says the marketing programs Citibank has begun for its credit cards embody some characteristics of frequency marketing programs. Enhancements include a package of services built around discounts and delivered by arrangement with outside suppliers. The program, known as CitiBenefits, has subsets of awards for people who use the card often for dining, travel, or shopping.

In addition, the bank offers CitiDollars, which are points accrued by cardholders that can be cashed in for merchandise discounts.

Fifth Third's Program

The Fifth Third Bank of Cincinnati uses a combination of discounts and real-value awards to lure customers over the age of 53 into multiple relationships with the bank. Club 53 Members receive free travelers checks, money orders, and notary services; and discounts on safe deposit rentals, securities trades, installment loan rates, and credit card fees. Another popular benefit is a bonus interest rate of one percentage point on fixed-rate certificates of deposit.

Mr. Barlow says Citibank and Fifth Third could improve their success rate. He recommends tracking customer accounts to develop a data base that would be used when making customer contact.

Adding Benefits from Outside

Banks are getting better at packaging related financial services but lag in adding benefits from outside, Mr. Barlow says. Because banks have broad customer bases and interactive retail delivery systems, they are in an enviable position to deploy such programs, he says.

For example, ATMs might be programmed with a message offering a discount on auto maintenance at a local service station. Banks could develop programs that would simultaneously give a retail customer a discount and help build traffic for a commercial customer.

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.

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N A M S SM

MasterCard on Top in Brand Survey

Continued from *page* 1

Coca-Cola, Campbell's, and Disney – which took the top three spots – the credit card companies have become part of the consumer's psyche.

"When you look at financial services in the U.S., it's a very segmented business," said Stewart Owen, Landor's director of research. "The credit card is the only financial service that is sitting in everyone's pocket."

The fact that they fared better than American Express is also significant, given American Express Co.'s heritage and advertising budget. The company has a corporate history dating back about 140 years, while MasterCard and Visa are barely 20 years old.

American Express is also believed to spend four to six times more on advertising than the bank card groups, which rely heavily on promotional efforts by member banks.

"If you looked solely at a high-income audience, American Express would come out stronger," Mr. Owen said.

The Landor study was designed to reflect brand power among a cross-section of the population, Mr. Owen explained, thus helping the bank card performance.

Landor Associates, based in San Francisco, contacted 5,000 consumers from 48 states to evaluate the strength of 6,000 brand names. In addition to a brand or ImagePower ranking, each brand received a "share of mind" ranking, reflecting its recognition among consumers, as well as an esteem ranking.

Visa Leads in World Survey

The firm also surveyed 4,000 consumers in Europe and Japan. Based on the 9,000 consumers surveyed worldwide, Visa is the top name in financial services, with a brand power ranking of 41. American Express is the next financial firm on the worldwide list, ranking 44th. MasterCard ranks 92d.

In the domestic study, financial services firms generally received lower marks for esteem than recognition. Citibank finished first among banks in the survey. It received a brand power score of 639 and esteem score of 1,020.

Top Brand Names in Banking
Rank among 2,000 names in national survey

	Brand power	Familiarity	Esteem
MasterCard	65	27	165
Visa	78	42	140
American Express	149	90	329
Discover	485	345	834
Citibank	639	503	1,020
Citicorp	727	666	968
Diners Club	822	663	1,454
Wells Fargo	841	834	1,050
Bank of America	853	732	1,384
Chase Manhattan	908	819	1,309
Great Western	1,075	1,091	1,159
Manufacturers Hanover	1,223	1,238	1,251
J.P. Morgan	1,400	1,265	1,837
Barclays	1,454	1,244	1,911
First Interstate	1,502	1,456	1,553

Source: Landor Associates

"Financial services have in general not had a great two or three years," Mr. Owen said. "This has been a very troubled category."

Other banks on the list of total brand power include Citicorp, Citibank's parent, at 727; Wells Fargo, 841; and Bank of America, 853. Unlike the credit card organizations, individual banks and other financial companies tend to advertise regionally and focus on businesses less meaningful to the entire population.

"Intellectually, you would have to take the awareness that a bank has in its hometown and compare it to how other entities rank on a national scale," said Steven Rivkin, president of Rivkin & Associates, an image consultant in Midland Park, N.J.

Boost for Marketing Plans

For MasterCard International, the findings are a seal of approval on a new marketing strategy designed under president Alex W. Hart. Rather than try to overcome Visa U.S.A.'s leadership in cards outstanding, Mr. Hart has chosen to promote the strength of the MasterCard brand name.

"This is exactly what we've been telling our members all year long," said Peter S.P. Dimsey, executive vice president of marketing and advertising for the New York-based association. The theme of MasterCard's annual meeting was "strike up the brand."

Even the credit card companies, which enjoy high name recognition, perform less well in terms of esteem. MasterCard, which ranked 27th in consumer familiarity, or share of mind, came in 165th in esteem. Visa ranked 42d in share of mind and 140th in esteem.

Competing on Value

"We spend less to establish our prestige," said Mr. Dimsey of MasterCard. "We compete more on value."

A spokesman for Visa U.S.A. in San Mateo, Calif., questioned whether MasterCard's brand is more powerful than Visa's. "All our studies show that we lead overall," he said. He also cited a recent study of 1,000 consumers conducted by Total Research Corp., Princeton, N.J., that ranked the Visa name the 18th in the country and the MasterCard brand 27th. □

AMERICAN BANKER /*Bank Rate Monitor's*™
Consumer Money Index — ***Auto, personal and credit card rates***

Market	CREDIT CARD 9/11/90	CREDIT CARD 9/4/90	PERSONAL 9/11/90	PERSONAL 9/4/90	AUTO 9/11/90	AUTO 9/4/90
New York	19.29	19.29	19.46	19.46	13.82	13.82
Los Angeles	19.16	19.16	20.12	20.12	13.22	13.19
Chicago	18.85	18.85	17.10	17.10	11.96	11.96
San Francisco	19.74	19.74	20.12	20.12	12.92	12.87
Philadelphia	18.03	18.03	14.72	14.79	11.66	11.66
Detroit	18.00	18.00	15.92	15.92	11.86	11.86
Boston	17.75	17.75	17.56	17.56	12.79	12.79
Houston	18.12	18.12	14.62	14.62	11.24	11.49
Dallas	19.17	19.17	16.87	16.87	11.12	11.37
Washington D.C.	18.81	18.81	16.79	16.79	11.68	11.55
BRM Index	18.69	18.69	17.33	17.34	12.23	12.26

The Bank Rate Monitor Index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets on the dates indicated. Other rates quoted are the lowest and highest offered at the same institutions. Auto loan rates are for a $9,000, 48-month, new-car loan with a 20 percent down payment. Personal loan rates are for a $3,000 unsecured personal loan with a 24-month term. Credit card rates are fixed rates only and do not take into account differing annual fees or grace periods.

SOURCE: © Bank Rate Monitor, North Palm Beach, 33408
All inquiries: (407) 627-7330

	9/12/90
LOWEST PERSONAL LOAN RATES	
First Pennsylvania, Philadelphia	12.49%
Philadelphia Nat'l Bank, Philadelphia	12.49
Beneficial Svgs Bk, Philadelphia	13.00
HIGHEST PERSONAL LOAN RATES	
Manufacturers Hanover Trust, NY	24.00%
Bank Of Amercia, San Franciso	21.25
First Interstate Bank, Los Angeles	21.00
LOWEST AUTO LOAN RATES	
Team Bank, Dallas	10.75%
First City, Texas, Dallas	10.75
LaSalle Nat'l Bank, Chicago	11.00
HIGHEST AUTO LOAN RATES	
Citibank, NY	15.90%
Manufacturers Hanover Trust, NY	15.50
Chemical Bank, NY	14.90
LOWEST CREDIT CARD RATES	
Provident Inst. for Svgs, Boston	14.90%
St. Paul Fed. Bank, Chicago	15.90
Benjamin Franklin Svgs, Houston	15.90
HIGHEST CREDIT CARD RATES	
World S&L, San Francisco	20.90%
Homestead Savings, San Francisco	20.90
Riggs Nat'l Bank, Washington	19.80

Lawmakers Are Paving Way for Further FDIC Rate Hikes

Continued from *page* **1**

bank deposits would decline to 0.50% of insured deposits by 1995, 20 basis points below the record low coverage of 0.70% at the end of 1989.

Budget office projections showed more than 600 banks would fail between the start of 1990 and the end of 1993, costing the insurance fund an estimated $21 billion.

The outlook was even bleaker than the one presented on Tuesday by the General Accounting Office, based on yearend 1989 data. The GAO said 35 relatively large banks were close to failure, and that the Bank Insurance Fund coverage ratio in 1995 would be between 0.69% and 1.07%, depending on bank failure rates and other economic factors.

In light of the reports, Senate Banking Committee Chairman Donald W. Riegle Jr., D-Mich., said he is drafting legislation that would lift all restrictions on the FDIC's ability to raise premiums.

Only a month ago, the FDIC proposed raising premiums in 1991 from a previously planned 15 cents per $100 of insured deposits to 19.5 cents, but agency Chairman L. William Seidman has hinted lately that yet another increase is necessary. The industry now pays 12 cents per $100; the 7.5-cent increase would be the largest one-year hike allowed under current laws.

Sen. Riegle wants to lift restrictions on raising FDIC premiums.

Deposit Transfer Proposed

Rep. Frank Annunzio, D-Ill., chairman of the House Banking subcommittee on financial institutions, introduced a bill that would require banks to transfer 1% of their deposits to the FDIC's Bank Insurance Fund. Mr. Annunzio has scheduled a hearing for Sept. 27 and said he plans to ask the subcommittee to vote on the bill shortly thereafter.

"There is a good chance that Congress will do something along the lines of what Sen. Riegle is proposing," said Edward L. Yingling, director of government relations for the American Bankers Association.

Political Pressures

If Congress grants Mr. Seidman authority to raise premiums, Mr. Yingling added, "it will be very difficult politically for him not to."

Despite the industry's concern over Sen. Riegle's proposal, efforts to oppose that kind of bill would probably be futile, he said.

If Congress lifts restrictions on the FDIC, many observers believe the agency would raise bank premiums to 23 cents per $100 of insured deposits, the same rate at which thrifts are assessed.

A day before Mr. Reischauer's appearance before the Senate Banking Committee, the GAO, another congressional agency, projected that the coverage ratio in 1995 seemed certain to remain well below the $1.25 per $100 of insured deposits mandated in last year's thrift-bailout law.

GAO also warned that the fund would be unable to handle a rash of large bank failures.

In his appearance on Wednesday, Mr. Reischauer said the CBO expects 631 banks to fail from 1990 through 1993. Significantly, of those banks, 295 banks now hold at least 6% in capital.

Caution Urged

The budget office director also warned legislators and regulators to exercise caution in assessing premiums and not undermine the strength of many banks.

Rep. Annunzio introduced a measure that would require banks to transfer 1% of their deposits to the FDIC's Bank Insurance Fund.

"You might be careful on that score," he said. "In the short run, you don't want to push some weak banks over the brink."

For bankers, the prospect of increased premiums raises a number of troubling questions. First, many believe the industry is reaching the limits of what it can afford.

But the question is also likely to prove divisive within the industry. The Independent Bankers Association of America argues that as premiums rise, large institutions will shift their funding sources into foreign branch deposits and nondeposit liabilities. Neither of these are assessed premiums, but they have traditionally been covered by FDIC insurance.

As a result, "as premiums go up, it becomes critical for the FDIC to have as broad an assessment base as possible," said Stephen Verdier, a congressional lobbyist for the Independent Bankers Association.

Opposition Likely

Large institutions would vehemently oppose any effort to bring foreign branch deposits and other liabilities into the assessment base, however.

With the insurance fund looking weaker by the day, members of Congress are scrambling for other means to boost the FDIC's reserves.

Sen. Alan Dixon, D-Ill., proposed Wednesday that interest on the reserves banks maintain with the Federal Reserve be transferred to the FDIC. Currently, the Fed pays such interest

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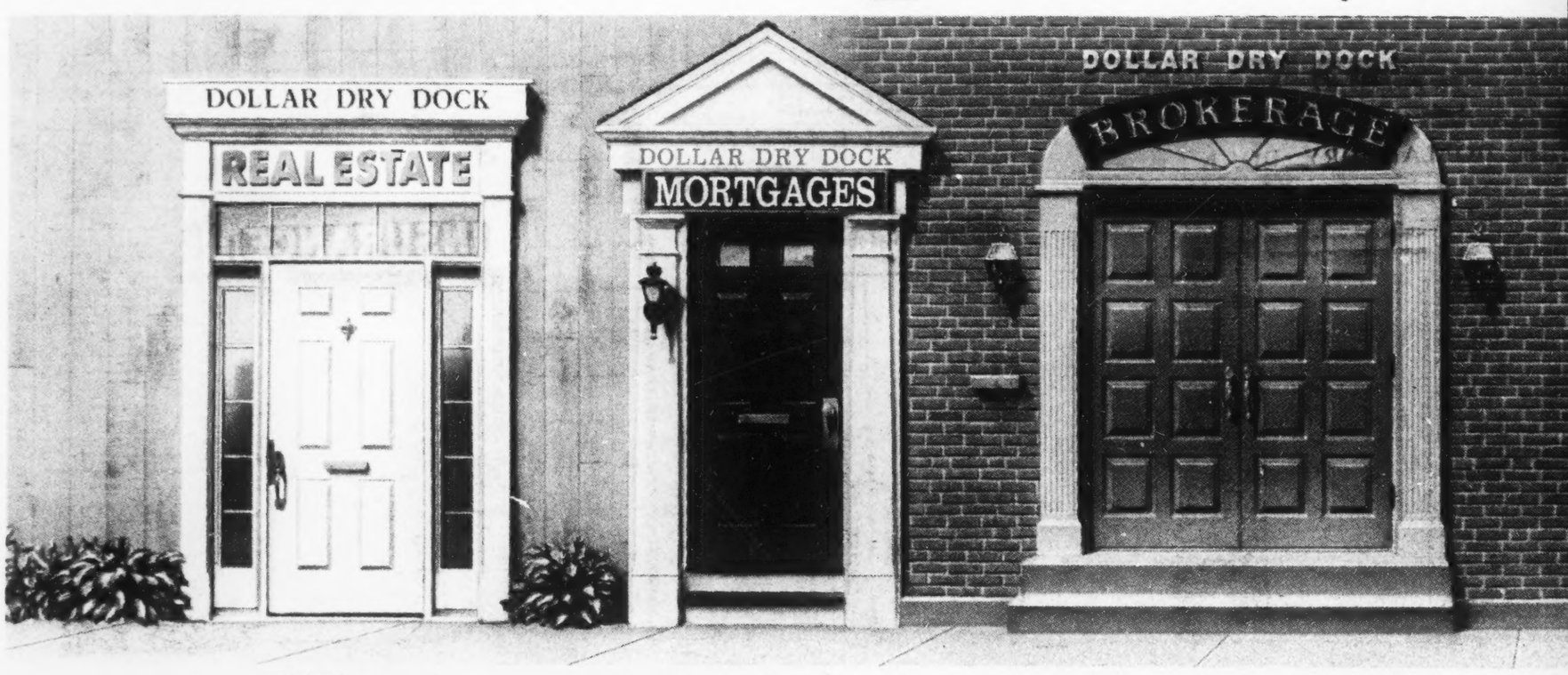

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Big Banks' Deposit Growth Slow Despite Thrift Availability

Continued from *page* 2

thrifts or other banks must have a tangible leveraged equity-to-asset ratio of between 4.5% and 5.5%, a number that excludes not only goodwill but other intangibles that are acceptable under the published guidelines. The lower amount of capital applies only to banks where substantially all the bank's equity is common equity, Mr. Cohen said.

Moreover, the Fed has an acquisition policy that virtually disqualifies any bank company with an overall Camel rating or Community Reinvestment Act rating of 3 or worse from buying a thrift or bank. "Camel" refers to examination ratings based on the quality of a bank company's capital, assets, management, earnings, and liquidity. The higher the number, the worse the rating.

Many Excluded

"The end result," Mr. Cohen said, "is to disqualify scores of potential purchasers."

Although 19 of the 300 largest banks in the first half of the year acquired deposits from 26 thrifts, other factors such as consolidation of subsidiary banks also played a role in deposit growth.

First American National Bank of Nashville topped the list of gainers in the past six months with a 148% jump in deposits because its holding company merged eight of its Tennessee banks into the Nashville unit. The fourth-largest gainer, Norwest Bank Des Moines, similarly saw deposits rise by 131% because of consolidations with sister banks in Iowa.

The Fed requires buyers of thrifts to meet more stringent capital standards than those imposed under published capital guidelines.

Mellon Was Purchaser

Mellon Bank (East), which placed third on the list of gainers, took the most publicized route to its 131% deposit rise. It purchased 54 offices from Meritor Savings Bank and its PSFS unit in May. Mellon also has announced plans to consolidate four other Pennsylvania banks into the Mellon East unit.

Bank of America, San Francisco, the nation's second-largest bank, gained more than $2 billion of deposits. The gain was fueled in part by the purchase of two California thrifts, First Federal Savings and Loan and Guardian Federal Savings and Loan, in the first half.

Its parent's largest purchase, the $4.1 billion-deposit Western Savings and Loan Association in Phoenix, was moved into the newly created Bank of America, Arizona, which ranked 151st among the top 300 banks as of June 30.

Earlier this month, BankAmerica also won a spirited bidding contest with Security Pacific Corp., its chief rival in the Western Savings auction, for Oregon's Benj. Franklin Savings and Loan.

Security Pacific Gains

Security Pacific National Bank of Los Angeles, for its part, saw its deposits soar 13% and its place in the ranking jump two slots to fourth place because of its California thrift purchases – Gibraltar Savings and Washington Savings and Loan Association.

The search for selective acquisitions and consequent deposit gains in selected regions is not surprising, analysts said.

"If you go through every superregional bank in every key state, you'll find almost all have been active acquirers," said James McDermott, a bank analyst at Keefe, Bruyette & Woods. "It's one of the cheapest way to expand market share and pick up relatively low-cost deposits. It reduces reliance on more sensitive purchased funds."

Bank of New England Off

On the other side of the coin, Bank of New England Corp.'s banks were among the biggest deposit losers. The troubled institution experienced a flood of withdrawals by depositors early in the year, when news of their weak capital came to light.

Some deposits have been replenished in recent months through an aggressive offering of high-yielding certificates of deposit. But in the first six months, BNE's Connecticut Bank and Trust Co. and Bank of New England-West were among the top four deposit losers, slimming down by 16.5% and 15% respectively. Bank of New England, the company's flagship Boston bank, lost 11.4% of deposits.

Among the top 20 banks in the nation, 14 registered deposit growth. Citibank NA, the nation's largest in both assets and deposits, added about $5 billion of deposits in the first half of the year, bringing its total to $116.5 billion. Most of the growth derived from routine retail activities, such as certificates of deposit, a bank spokesman said.

Modest deposit losses were registered by Chase Manhattan Bank, Marine Midland Bank, Continental Bank, First Interstate Bank of California, and Republic National Bank of New York. Mellon Bank, Pittsburgh, saw its deposit base drop 15% to $12.8 billion and its rank fall from 17 to 20 among the top 300 banks – in contrast to the growth at its sister Philadelphia-area bank.

"It primarily represents a drop in foreign deposits, which took place as part of our strategy in acquiring the PSFS branches," said J.T. Tuskan, a Mellon spokesman. □

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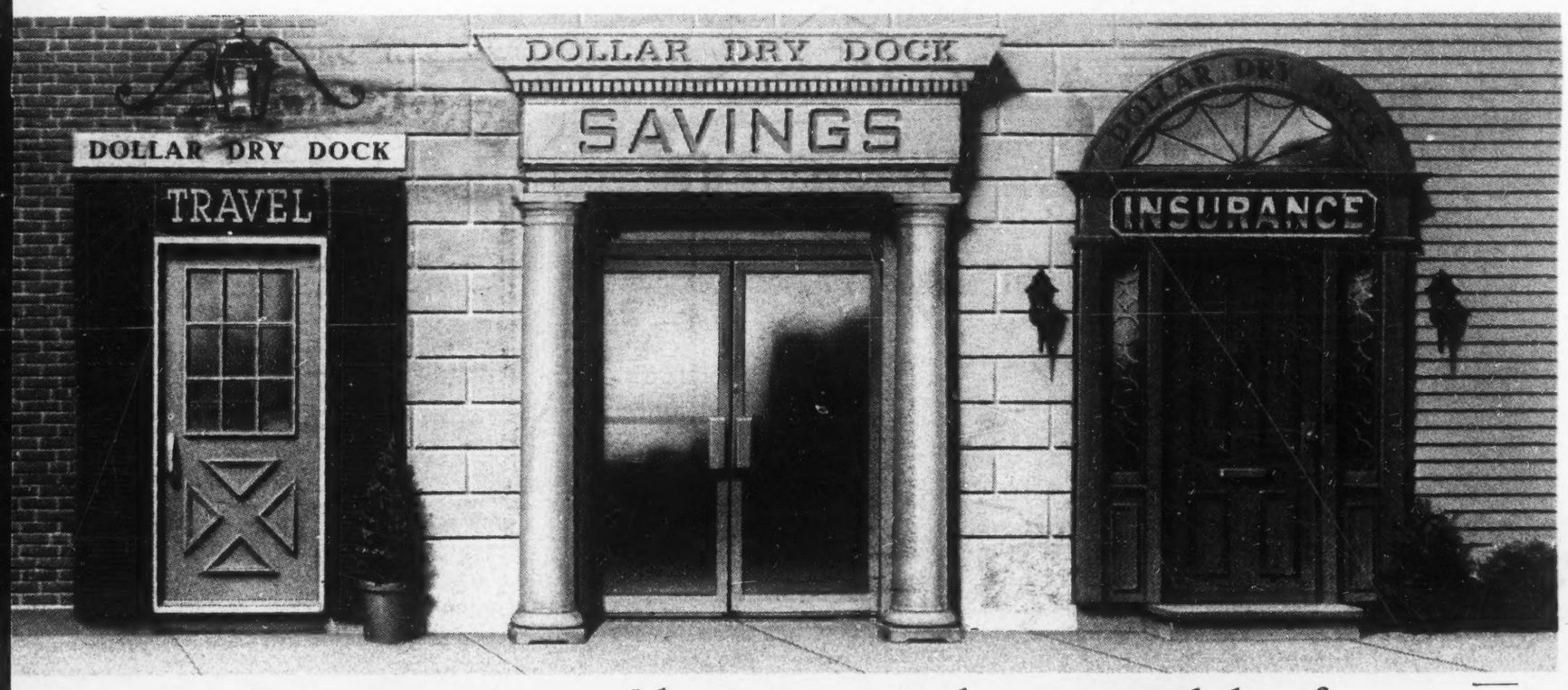

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